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John A. Ricker  
Executive Director  
Universal Service Programs Support

December 2, 1999

Magalie Roman Salas  
Secretary  
Federal Communications Commission  
445 Twelfth Street, S.W.  
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Re: TRS Fund Administration  
Financial Statements  
CC Docket No. 90-571

Dear Ms. Salas:

Enclosed herewith are the original and three (3) copies of the financial statements of the TRS fund for the sixth year of its operation (from August 1, 1998 through July 31, 1999), together with an auditor's report from an independent certified accounting firm, filed in accordance with 47 C.F.R. § 64.604(c)(4)(iii)(D) and (H).

Please acknowledge receipt of this letter and filing by affixing a notation on the duplicate copy of this letter which is enclosed and remitting the duplicate to the bearer.

Very truly yours,

John A. Ricker

Enclosures

cc: I. Flannery (w/enclosure)  
K. Moran (w/enclosure)  
C. Keller (w/enclosure)  
K. Schroeder (w/enclosure)  
D. Sabourin (w/enclosure)  
J. Lande (w/enclosure)  
J. Rodriguez (w/enclosure)  
ITS (w/enclosure)

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Please acknowledge receipt of this letter and filing by affixing a notation on the duplicate copy of this letter which is enclosed and remitting the duplicate to the bearer.

Very truly yours,

A handwritten signature in black ink, appearing to read "John A. Ricker", is written over a long, thin horizontal line that extends to the left.

John A. Ricker

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ARTHUR ANDERSEN LLP

**National Exchange Carrier Association Inc.**

**Financial Statements Of The Telecommunications**

**Relay Services Fund For The Fiscal Years Ended July 31, 1999 and 1998**

**Together with**

**Report of Independent Public Accountants**

# ARTHUR ANDERSEN LLP

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of the

National Exchange Carrier Association, Inc.:

We have audited the accompanying statements of assets, liabilities and fund balance of the Telecommunications Relay Services Fund ("TRS Fund" or "TRS") administered by the National Exchange Carrier Association, Inc. ("NECA" or "the Company") as of July 31, 1999 and 1998, and the related statements of changes in fund balance and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund balance of the TRS Fund administered by NECA as of July 31, 1999 and 1998, and the changes in its fund balance and its cash flows for the fiscal years then ended in conformity with generally accepted accounting principles.

*Arthur Andersen LLP*

Roseland, New Jersey  
November 24, 1999

TELECOMMUNICATIONS RELAY SERVICES FUND

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

AS OF JULY 31, 1999 AND 1998

(in thousands)

<u>ASSETS</u>	<u>1999</u>	<u>1998</u>
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$24,908	\$25,467
Receivable from contributors (Notes 1 and 2)	2,400	1,567
Interest receivable	11	4
Total assets	<u>\$27,319</u>	<u>\$27,038</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
LIABILITIES:		
Payable to TRS service providers (Note 1)	\$6,866	\$6,329
Accounts payable and accrued expenses	33	41
Total liabilities	6,899	6,370
Fund balance (Note 1)	<u>20,420</u>	<u>20,668</u>
Total liabilities and fund balance	<u>\$27,319</u>	<u>\$27,038</u>

The accompanying notes are an integral part of these statements.

TELECOMMUNICATIONS RELAY SERVICES FUND

STATEMENTS OF CHANGES IN FUND BALANCE

FOR THE FISCAL YEARS ENDED JULY 31, 1999 AND 1998

(in thousands)

	<u>1999</u>	<u>1998</u>
ADDITIONS TO FUND BALANCE:		
Amounts billed to contributors (Notes 1 and 2)	\$38,164	\$49,577
Interest income (Note 2)	<u>1,315</u>	<u>1,291</u>
Total additions	<u>39,479</u>	<u>50,868</u>
DEDUCTIONS FROM FUND BALANCE:		
Amounts paid and due to providers (Note 1)	39,362	36,682
Administrative costs (Note 3)	<u>365</u>	<u>356</u>
Total deductions	<u>39,727</u>	<u>37,038</u>
Net change in fund balance	(248)	13,830
FUND BALANCE, beginning of period	<u>20,668</u>	<u>6,838</u>
FUND BALANCE, end of period	<u>\$20,420</u>	<u>\$20,668</u>

The accompanying notes are an integral part of these statements.

TELECOMMUNICATIONS RELAY SERVICES FUND

STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED JULY 31, 1999 AND 1998

(in thousands)

	<u>1999</u>	<u>1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from contributors	\$37,331	\$49,785
Cash paid to TRS service providers	(38,825)	(42,206)
Cash paid for administrative costs	(373)	(342)
Interest received	<u>1,308</u>	<u>1,316</u>
Net cash (used in) provided by operating activities	(559)	8,553
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>25,467</u>	<u>16,914</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>\$24,908</u></u>	<u><u>\$25,467</u></u>
RECONCILIATION OF NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Changes in operating assets and liabilities-		
(Increase) decrease in receivable from contributors	(\$833)	\$208
(Increase) decrease in interest receivable	(7)	25
(Decrease) increase in fund balance	(248)	13,830
Increase (decrease) in payable to TRS service providers	537	(5,524)
(Decrease) increase in accounts payable and accrued expenses	<u>(8)</u>	<u>14</u>
Net cash (used in) provided by operating activities	<u><u>(\$559)</u></u>	<u><u>\$8,553</u></u>

The accompanying notes are an integral part of these statements.

# TELECOMMUNICATIONS RELAY SERVICES FUND

## NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JULY 31, 1999 and 1998

### (1) GENERAL:

The Americans With Disabilities Act directed the Federal Communications Commission ("FCC") to establish regulations requiring nationwide telecommunications relay services ("TRS") by July 26, 1993. TRS facilities are equipped with specialized equipment and staffed by communications assistants who relay conversations for people with hearing and/or speech disabilities. On July 20, 1993, the FCC named the National Exchange Carrier Association, Inc. ("NECA" or "the Company") as administrator of the TRS fund. On June 30, 1995, the FCC reappointed NECA as TRS administrator for a four-year term through July 1999 (Third Report and Order, CC Docket 90-571). On June 30, 1999 NECA was appointed to a third 4-year term through July 25, 2003 (Memorandum Opinion and Order, CC Docket No. 90-571 released July 1, 1999).

TRS funds are collected from all common carriers providing interstate services and distributed monthly to qualified TRS service providers. The annual contribution factor is developed by the FCC every December based upon estimates of the revenue requirements necessary to provide services in the upcoming April 26<sup>th</sup> through March 26<sup>th</sup> period. Accordingly, at a given point in time, amounts may be receivable from or payable to fund participants. The difference between actual and estimated requirements (i.e., the fund balance) is included in the calculation of the contribution for the subsequent 12-month period.

The annual contribution factor approved by the FCC was \$.00033 per each dollar of interstate revenue for the period from April 26, 1996 through March 26, 1997. It was increased to \$.00058 for the April 26, 1997 through March 26, 1998 period, decreased to \$.00039 for the April 26, 1998 through March 26, 1999 period and further decreased to \$.00038 for the April 26, 1999 through March 26, 2000 period. All factors are determined by the FCC by taking into consideration the projected funding requirements of providing interstate TRS service, changes in the growth of interstate revenues throughout the industry, a safety margin of 10% and any fund surpluses/shortfalls which are carried over from prior years.

Payments to TRS service providers are based on interstate TRS conversation minutes, as submitted by the service providers, multiplied by a rate per minute as calculated by NECA and approved by the FCC. The rate per minute is an average rate between all service providers and is calculated based on the estimated costs to provide interstate TRS service divided by the expected conversation minutes to be provided. The per minute rate was \$1.217 per minute from January 1, 1997 through December 31, 1997. From January 1, 1998 through December 31, 1998, the rate was decreased to \$1.168 per minute. From January 1, 1999 through December 31, 1999 the rate was increased to \$1.179 per minute.



On July 14, 1999, the FCC issued an Order in CC Docket No. 98-171, 1998 Biennial Regulatory Review - Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Services, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms. This Order will impact the interstate TRS funding process in a number of ways including changing the contribution base to end user revenues, reducing the minimum contribution from \$100 to \$25, and changing the fund year from April - March to July - June. TRS providers will be reimbursed from the fund surplus for April - June 2000. Carriers will not be billed for those three months.

To coincide with the change of fund year beginning July 2000, NECA intends to change the fiscal year from August 1 through July 31 to July 1 through June 30. In order to accomplish this, the financial statements for fiscal year 2000 will cover August 1, 1999 through June 30, 2000.

(2) ACCOUNTING POLICIES:

Cash and Cash Equivalents-

NECA considers all highly liquid securities, purchased with a maturity of three months or less, to be cash equivalents. Interest is credited to the TRS fund when earned and the investment rate averaged 4.89% during fiscal 1999 and 5.55% during fiscal 1998.

Receivable from Contributors-

The financial statement caption "Receivable from contributors" consists of billed funds that have not yet been collected from common carriers that provide interstate services. Uncollectable accounts are written off directly against the fund balance as a reduction to "Amounts billed to contributors". As such, the Company has not established an allowance for doubtful accounts. The annual contribution factor, approved by the FCC, provides for anticipated uncollectable accounts to avoid funding shortfalls. Write-offs against the fund balance in Fiscal 1999 and 1998 totaled \$254,000 and \$0, respectively.

Use Of Estimates-

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) ADMINISTRATIVE COSTS:

Administrative costs (in thousands) consist of the following-

	<u>1999</u>	<u>1998</u>
Cost allocation	\$226	\$212
Direct labor costs	68	86
Miscellaneous	44	32
Travel	11	6
Consultants	<u>16</u>	<u>20</u>
	<u>\$365</u>	<u>\$356</u>

NECA administrative costs charged to the TRS fund are allocated in accordance with NECA's Cost Accounting and Procedures Manual ("CAM") filed with and approved by the FCC. NECA annually submits a Statement of Cost Allocation System Compliance to the FCC for which a schedule of costs incurred by category (including TRS) is attached. NECA has independent public accountants review NECA's cost allocation procedures to ensure such procedures are in compliance with the CAM. The latest attestation report issued was dated March 30, 1999 and covers the year ending December 31, 1998.

Costs for personnel assigned to TRS such as salaries, benefits and travel are directly charged to the fund. Common costs are accumulated in defined cost pools and allocated on a monthly basis to the TRS fund using activity based cost drivers as further described in NECA's CAM. These costs include legal, auditing, finance, information systems, facilities, and general overheads.

(4) INCOME TAXES:

These financial statements present the activities of the TRS Fund. The activities of the TRS Fund are not subject to Federal or state income taxes or sales, use, gross receipts or other taxes. As such, no provision for such taxes have been reflected in the accompanying financial statements.

(5) TRS ADVISORY COUNCIL:

An interstate TRS Advisory Council was formed in accordance with FCC rules, to advise NECA on interstate TRS cost recovery matters. The council meets at least twice annually.

According to the Interstate Telecommunications Relay Services Advisory Council Bylaws, the council can be comprised of not fewer than 6 and not more than 13 members. The FCC has ordered that members represent the following groups: persons with hearing and/or speech disabilities, TRS users - voice and TTY, interstate telecommunications service providers, state regulatory representatives, and TRS providers. As of November 24, 1999, the council had 13 members.